

J.P. Morgan/Chase Auto Annual Dealership Survey

Vehicle Demand Strong; GPUs Robust; P&S Recovery Uncertain; D2C and EVs LT Concerns; Digital an Opportunity

We recently completed a survey of US Auto dealerships in collaboration with Chase Auto to gauge ongoing business trends, including new vehicle GPU, move to online, uptake of EVs, and future challenges and concerns for the overall business. Business trends show strong demand and GPU trends though the recovery in Parts & Service seems uncertain. Survey results highlight the key challenges (D2C model, e-commerce pricing pressure, EVs/AVs, F&I disruption) and opportunities (higher flexibility in overall purchasing process, haggle-free pricing, service capacity, digital capabilities) across different businesses including new vehicle retail, used vehicle, Parts & Services and F&I as well as the key focus areas of investments (store enhancements, digital infrastructure, advertising). We summarize our key takeaways from the survey below with detailed results and charts along with free response quotes further down in the report. We received ~300 responses that were collected from 3/16/21 through 4/1/21.

- **1Q21 trends robust; recent meetings and checks (click here for our NDRs with [AN](#), [GPI](#) and [SAH](#) and takeaways from [KMX](#) results) also reinforce this.** Based on responses from the dealers we surveyed, which included responses from 3/16 through 4/1, 1Q21 was tracking solid for the industry with growth across used vehicle retail, Parts & Services as well as suggesting solid new vehicle and F&I GPU trends. Our recent meetings with management teams provide comfort around 1Q performance, despite impact of adverse weather conditions, and benefits due to tailwinds from a strong macro backdrop amidst low interest rates, reducing unemployment and solid consumer health.
- **Digital/Online – meaningful shift in consumer willingness towards online vehicle purchases.** Two-third of respondents noted that they see a meaningful shift in consumer willingness towards online sales amidst the pandemic, which ~40% dealers see growing meaningfully, while ~35% expect to hit a saturation point and a quarter of respondents expect consumers to move back to in-store shopping. Separately, a third of dealers sell <1% of their vehicles online with just ~10% respondents having online sales penetration >10%. Additionally, ~50% dealers cited using digital auctions (like TradeRev, Backlot Cars, ACV Auctions, etc.) for <10% of auction purchases/sales, while ~15% dealers use these platforms for >50% of auction purchase/sales.
- **Electrification – limited shift in consumer preference for EVs/Hybrids; charging infrastructure/range anxiety biggest bottleneck to EV uptake in the country.** ~60% of the respondents noted that they see no change in consumer preference towards EVs/Hybrids vs ICEs. Separately, ~30% respondents believe that the lack of charging infrastructure/range anxiety is the key reason for the lackluster uptake of EVs in the US. Separately, ~25% of respondents believed that appropriate pricing was the key driver of slow EV uptake, followed by a similar ~25% citing below par technological capabilities of recent premium EVs, followed by ~15% citing consumer awareness. ~10% cited manufacturer incentives, and ~7% each cited lack of multiple options and lack of enough government subsidies, respectively.

See page 29 for analyst certification and important disclosures, including non-US analyst disclosures.

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- **New vehicle retail – lower manufacturer incentives and increasing ATPs key drivers of profit pressure going forward; rising interest rates and concerns related to consumer credit quality key long-term concerns.** ~20% of respondents noted that they see lower manufacturer incentives and floorplan assistance as the key driver of GPU pressure going forward while ~17% of the respondents cited increasing average transaction prices as the key driver. ~13% believe the move to direct-to-consumer industry sales from OEMs is likely to impact dealer profits, ~12% see attractive pricing for nearly-new/used vehicles as a driver cited. Separately, rising interest rates (~30%) and consumer credit quality (~20%) were cited as the biggest threats to new vehicle demand long-term followed by concerns around vehicle subscription programs from OEMs, proliferation of ride-hailing and ride sharing services and autonomous vehicles.
- **Used vehicle retail – inventory procurement the key area of both challenges and opportunities.** ~70% of respondents noted that inventory procurement challenges (auction vs retail, off-lease supply) are likely to be the key driver of GPU pressure going forward, with ~15% of responses citing e-commerce proliferation, including the likes of Carvana and other large players moving into online channels, which is increasing pricing competition. Separately, almost ~40% of the respondents noted that improving inventory procurement strategies will be key to improving volume and GPU in used vehicles going forward, while ~30% of the respondents cited opportunities to push more F&I products.
- **Parts & Services – increase in UIO sweet-spot and vehicle recall activity the key driver of growth medium-term; technician availability and structurally lower miles driven the key challenges.** ~40% of respondents noted that they see the increase in UIO (Units in Operation) of 4-8 year old vehicles in the car parc as the key driver of growth going forward while a third of the respondents cited higher vehicle recall activity. Separately, one-third of respondents see the lack of technicians as the key constraint to Parts & Services growth in the longer term while another one-third noted structurally lower miles as a result of shift towards e-commerce and work-from-home as the key challenge. On the topic of technicians and initiatives/strategies deployed by dealers to attract skilled labor, ~40% cited increasing compensation as the key lever, followed by improving benefits like 401K, health insurance, etc and increasing paid time-off.
- **F&I GPU – higher penetration the biggest opportunity for continued GPU growth; interest rates starting to rise again the key challenge long-term.** ~35% of respondents noted that they see higher penetration of F&I products as the key driver of F&I GPU (gross profit per unit) going forward while a quarter of respondents cited low interest rates as a key driver. ~40% respondents believe interest rates starting to rise again is the key challenge to F&I profit growth longer term while ~25% see potential for consumers to shift to alternate financing options outside the dealership as the key challenge.
- **Manufacturer-driven enhancements to prepare for surge in acceleration of EVs the key focus areas of investment and spending in the near to medium-term.** Capex was likely to be up for a majority of the dealers in 2021. Amongst the key focus areas for investment (including in SG&A), a third of the respondents cited manufacturer-driven enhancements to build infrastructure for the expected surge in EVs and hybrids, another ~30% cited IT/Digital infrastructure as the primary area of investment, while ~25% cited spend related to advertising and marketing.

- **Long-term industry opportunities – haggle-free pricing, digital capabilities and service capacity, higher flexibility/efficiency in purchase process.** ~25% respondents each see ability to move to a more haggle-free pricing model, investment in digital capability and service capacity to tackle more complex service and parts replacement work, and provide higher flexibility/efficiency in the vehicle purchase process and broader options for F&I as an opportunity for the industry longer-term, as key long-term opportunities. Beyond this, ~15% of respondents see opportunities in moving to omni-channel retailing and ~10% cited opportunities to participate and collaborate with AV companies for servicing and parts delivery.
- **Long-term industry challenges – near-term recession, move to direct-to-consumer selling, EVs/AVs, e-commerce driven pricing pressure, F&I disruption.** ~23% of respondents see a potential recession in the US as the key challenge to navigate, ~22% see move to direct-to-consumer business models coupled with relaxation of franchise laws as the key challenge, ~15% cited electrification and advancement in technology may significantly lower the number of shop visits for repair and service work at the dealership, another ~15% of respondents see pricing pressure from e-commerce, ~11% cited electrification and pickup in sales of non-legacy and direct-to-consumers brands (Tesla, Rivian, etc.) hurting dealership profitability, ~10% see potential for disruption of F&I commission by new entrants and new offerings in the market with consumers potentially opting for alternate sources for financing, and ~5% see eventual adoption of ride-share + autonomous vehicles as a threat that may significantly impact new vehicle demand and shift the mix of OEM sales to fleet vs retail.

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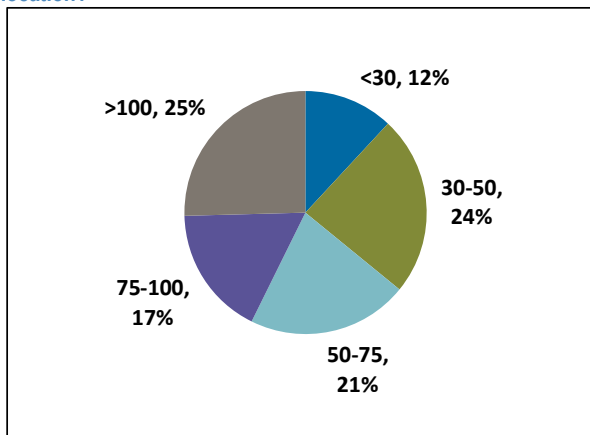
Detailed Review of Survey Results

We sent surveys to dealerships across the country. Survey responses came from the period of March 16th through April 1st. The sections below detail our results.

Respondents Profile

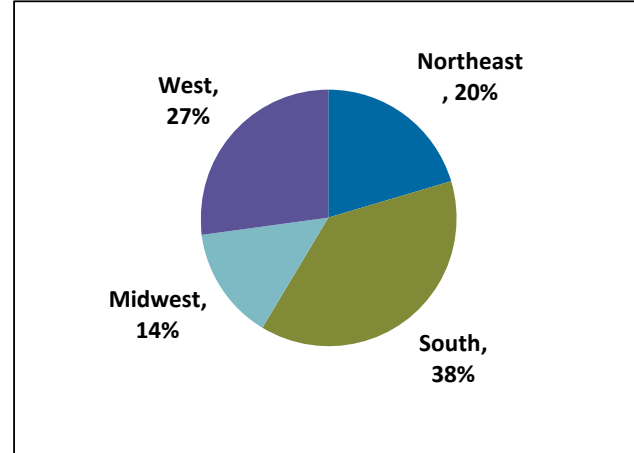
~25% of the dealers we surveyed had >100 employees, while ~24% had 30-50 employees, followed by ~21% with 50-75 employees, ~17% with 75-100 employees, and ~12% with <30 employees. ~38% of the dealers surveyed were from the South with ~27% and ~14% from the West and Midwest, respectively, and ~20% from the Northeast. ~50% of dealers surveyed sold imported brands followed by ~29% selling domestic brands, and ~21% that sold luxury.

Figure 1: What is the average number of employees at your dealership location?



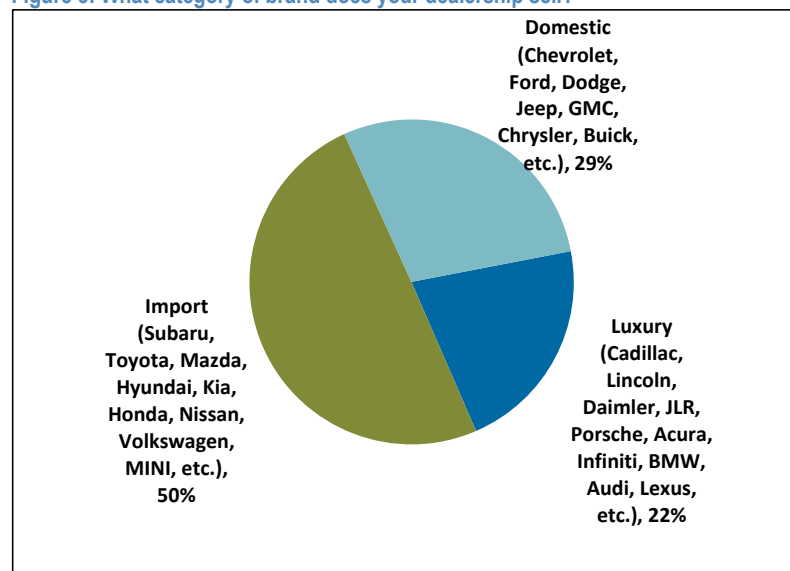
Source: J.P. Morgan

Figure 2: What region do you primarily serve?



Source: J.P. Morgan

Figure 3: What category of brand does your dealership sell?



Source: J.P. Morgan

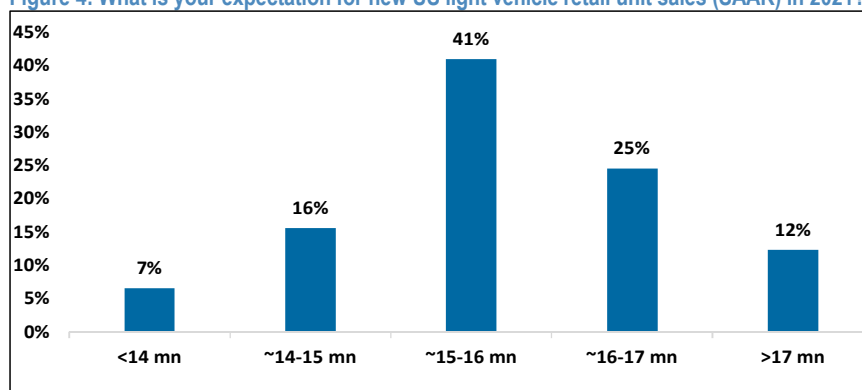
New Vehicle Demand Trends and Challenges

This section walks through dealer expectations for new vehicle SAAR in 2021 and also their views on industry drivers and challenges going forward.

SAAR likely higher y/y in 2021 – expected to register 15-16 mn units

To start, ~41% of dealers expect LV SAAR to come in between 15-16 mn units in 2021, up ~7% y/y at the mid-point vs ~14.5 mn units in 2020. ~7% respondents expect SAAR below 14 mn units, while ~12% see SAAR >17 mn units, while ~16% and ~25% believe SAAR is likely to come in between 14-15 mn units and 16-17 mn units, respectively.

Figure 4: What is your expectation for new US light vehicle retail unit sales (SAAR) in 2021?

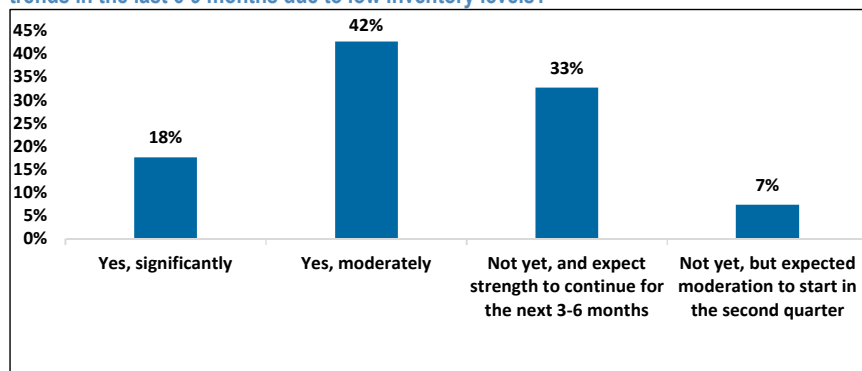


Source: J.P. Morgan

Near-term GPU strength sustainability

~60% of the dealers surveyed noted facing new GPU moderation following record-highs in 2H20, of which ~18% of dealers saw GPUs moderate significantly and ~42% saw GPUs decline moderately. On the flip side, ~7% expect solid GPU levels to start moderating in 2Q while ~33% of dealers expect GPU strength to remain resilient for the next 3-6 months. We do not believe the responses fully reflect the impact on production of the recent fire accident at a plant in Naka, Japan, which is expected to return to normal supply after ~100 days. The other thing to keep in mind is that responses are likely based on absolute GPU levels, which is likely to see seasonal declines in 1Q given 4Q is a typically high luxury mix quarter.

Figure 5: Have you started to see new vehicle gross profit per unit (GPU) moderate after strong trends in the last 6-9 months due to low inventory levels?

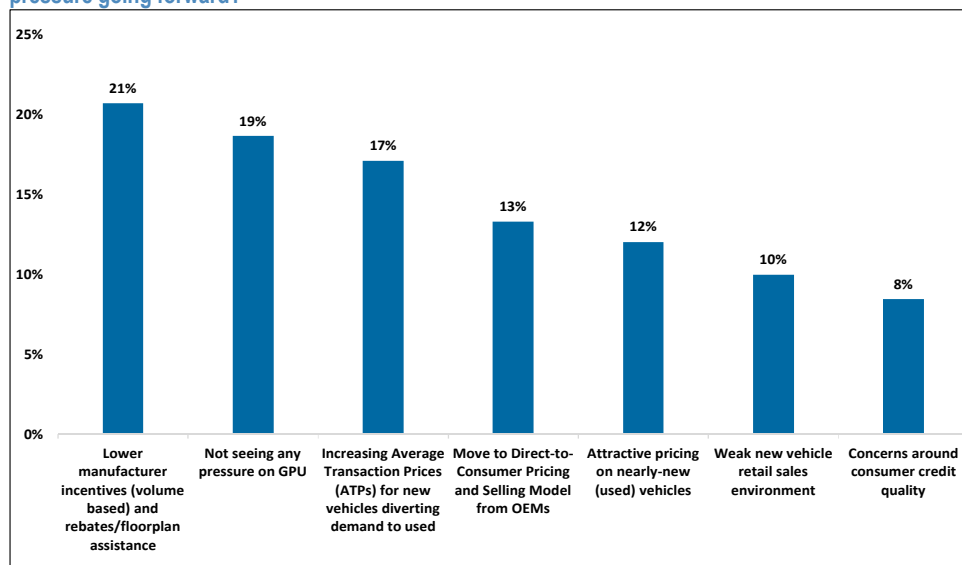


Source: J.P. Morgan

Lower manufacturer incentives and increasing ATPs the key drivers of new vehicle GPU pressure longer-term

Although a sizeable portion of respondents (~19%) do not see any upcoming new vehicle GPU pressures, ~21% of respondents noted that they see lower manufacturer incentives and floorplan assistance as the key driver of GPU pressure going forward, followed by ~17% of respondents citing higher ATPs as the key reason given it is shifting demand to used, ~13% believe move to direct-to-consumer industry sales from OEMs is likely to impact dealer profits, ~12% see attractive pricing for nearly-new/used vehicles as a driver, ~10% expect pressures from a weak new vehicle sales environment, and ~8% see consumer credit quality as a concern.

Figure 6: What do you view as the primary drivers of new vehicle gross profit per unit (GPU) pressure going forward?

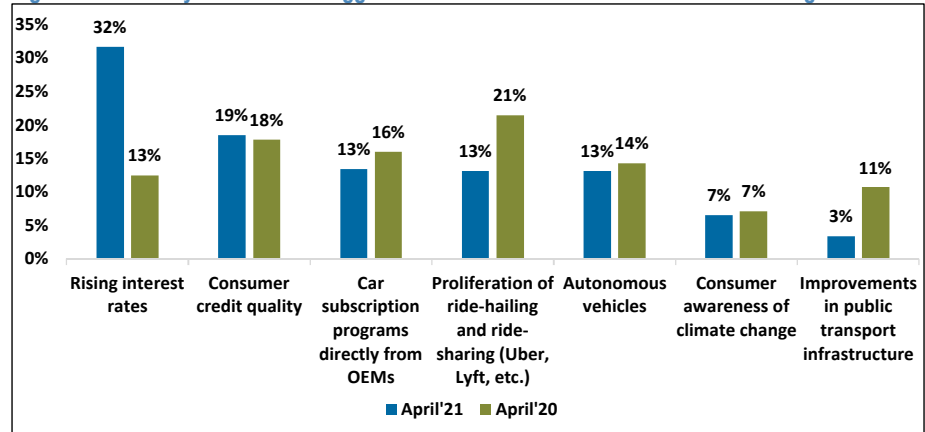


Source: J.P. Morgan

Rising interest rates is seen as the biggest threat to new vehicle demand long-term followed by concerns around consumer credit quality

~32% of respondents (vs ~13% in 2020) see rising interest rates as the biggest threat to new vehicle demand longer-term, followed by consumer credit quality (~19% vs ~18% in 2020) and potential for car subscription programs from OEMs (~13% vs ~16% in 2020). ~13% see proliferation of ride-hailing and ride-sharing services as a threat, which was the key concern at the time of our previous survey, cited by ~21% dealers in 2020. Another ~13% see Autonomous Vehicles (AVs) as a concern vs. ~14% in 2020, while ~7% cited consumer awareness around climate change and ~3% cited (vs ~11% prior) improving public transport infrastructure as threats to new vehicle demand in the longer term.

Figure 7: What do you see as the biggest threats to new vehicle demand over the long term?



Source: J.P. Morgan

Table 1: Selected Free Response comments on new vehicle demand trends and challenges/concerns, including due to COVID-19 restrictions and recent adverse weather in February?

These survey comments have been reproduced in their original form and have not been edited. Survey comments should not be attributed to J.P. Morgan and are not representative of its views.

"our brand need to have better dealer cash/ to compete with the rebate giants. i do not like the term rebate it hurts the true value of our products. let us control it with dealer cash to be in line with the discount giants"

"February cold weather shut us down for about a week in total in Houston, all COVID restrictions lifted in Texas and haven't really slowed us much"

"on-line self service kiosks (that do not account for some critical car buying decision criteria.... that can be better addressed at the store level) are gaining traction"

"media panic and lack of reasonable local government policies"

"Proliferation of complete on line purchases due to convenience, and the rejection of historical norms in selling cars"

"Supply will significantly lag demand at least through Q2"

"people like to be at dealerships to complete transactions"

Source: J.P. Morgan

Table 1: (Continued...) Selected Free Response comments on new vehicle demand trends and challenges/concerns, including due to COVID-19 restrictions and recent adverse weather in February?

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"semiconductor shortage"

"February weather hit us hard"

"You had to make sure everyone stayed engaged in the day to day business and be creative"

"chip shortage is challenging new car supply creating demand in used market"

"All is contingent on the supply side. If the manufacturer balance the supply and keep us under 45 days we should rock"

"The move to all electrification, will have a significant impact on volume as very few people are looking for All Electric, but for some strange reason, the OEM's are pushing this less green reality. Boggles the mind."

"More business being done on-line"

"I'm concerned that the rush to electrification is pricing cars out of the average customers price range"

"Product availability is an issue along with rising prices and payments due to changes in vehicle incentives."

"In NYC the challenge is unemployment, Insurance costs parking, ticketing, etc."

"Challenging market with moderate to strong demand with fierce competition"

"Credit union rates being very low compared to others"

"2021 will not be linear. Too many factors. COVID, economy, supply / demand"

"More company's will allow for their employees to work from home, so the extra car in the garage will not be needed."

"We are some of the most resilient people on the planet."

"As the OEMs are able to acquire more access and control of consumers and their data, dealers become superfluous. Some combination of lower margins and increase cost of doing business (plus higher interest rates) will likely reduce dealerships to service centers."

"expecting sales increase during spring and summer months and removal of CDC restrictions"

"Bank computers buy beacon scores not people, and miss many opportunities while all the new safety equipment; eye sight, airbags, road hazard safety features are so \$\$\$ "

Source: J.P. Morgan

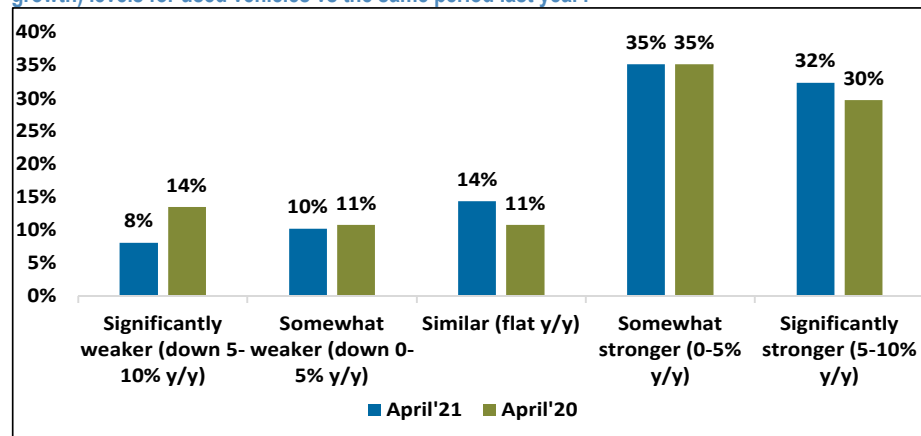
Used Vehicle Demand Trends and Challenges

This section walks through dealer expectations for used vehicle sales in 1Q21 and also their views on industry drivers and challenges going forward.

Used vehicle sales in 1Q21 likely stronger y/y

We note that ~67% of the dealers cited y/y increases in YTD sales, with ~32% of respondents expecting “significantly” stronger sales and ~35% dealers see “somewhat” stronger sales. ~14% see flat used vehicle sales trends, while ~10% and ~8% see “somewhat” and “significantly” weaker y/y trends in 1Q, respectively.

Figure 8: How would you describe your YTD (year-to-date, January through March) activity (y/y growth) levels for used vehicles vs the same period last year?

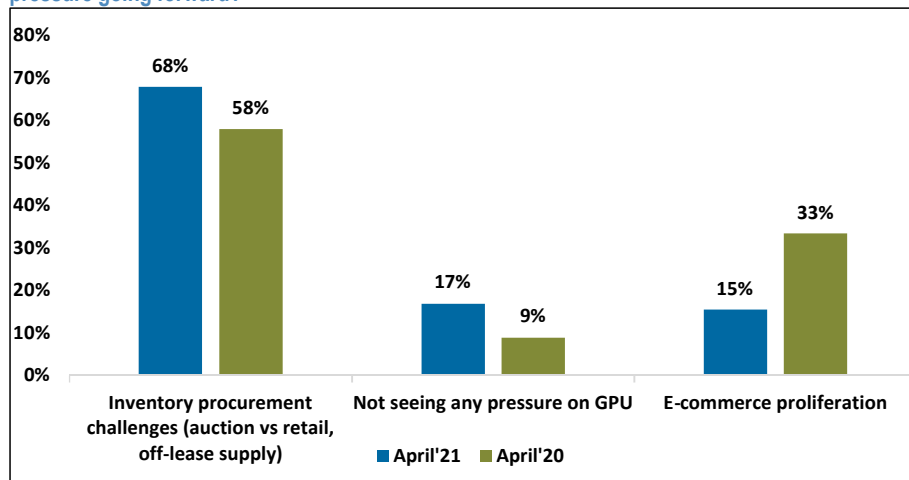


Source: J.P. Morgan

Inventory procurement challenges and e-commerce proliferation the key drivers for used vehicle GPU pressure going forward

~68% of respondents noted that inventory procurement challenges (auction vs retail, off-lease supply) likely continues to be the key driver of used GPU pressure going forward (cited by ~58% dealers in 2020). Concerns around e-commerce proliferation, including the likes of Carvana, Vroom and other large players moving into online channels, which is increasing pricing competition, seem to have subdued with ~15% dealers noting GPU pressures vs ~33% in 2020.

Figure 9: What do you view as the primary drivers of used vehicle gross profit per unit (GPU) pressure going forward?

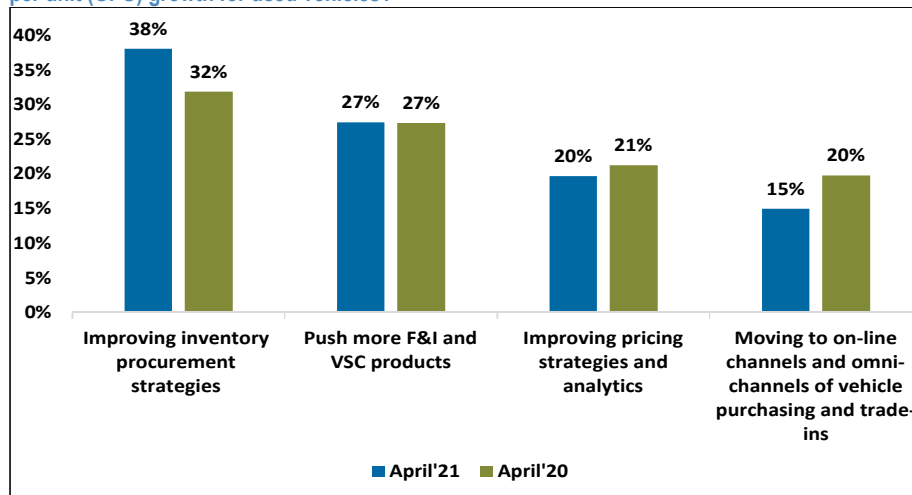


Source: J.P. Morgan

Improving inventory procurement and more F&I products the key opportunities to improve used volume and used GPU going forward

~38% of respondents noted that improving inventory procurement strategies will be key to improving volume and GPU in used vehicles going forward, and ~27% dealers cited opportunities to push more F&I products, which were highlighted last year by ~32% and ~27% dealers, respectively. ~20% of respondents noted opportunities around improving price strategies and analytics vs ~21% in 2020, while ~15% cited opportunities to tap into online and omni-channel for sales/trade-ins of vehicles vs ~20% in 2020.

Figure 10: What are the biggest opportunities in the near term to improve volume and gross profit per unit (GPU) growth for used vehicles?



Source: J.P. Morgan

Table 2: Selected Free Response comments on used vehicle demand trends, debate on online only/omni-channel, shifts in retail vs auction sourcing, and other challenges/concerns including due to COVID-19 restrictions and recent adverse weather in February?

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"demand is steady but product is scarce"

"more higher price to purchase thru auction will be more concerned for next 3 months"

"chip shortage creating supply issue for new cars causing demand in used car space"

"I'm not able to buy many cars outside my trades. The more new volume I do the more trades I get. Trade is where in getting my gpu"

"Due to a shortage of retail vehicles dealers are paying high prices for sub-standard vehicles and spending too much to recondition."

"Places like Vroom and Carvan not being held to any standard for smog and safety regulations. As a result they will spend much more money on used cars"

"In our market, fewer leases available much higher auction prices, scarcity of trade in and lease turn -ins have sent used car prices soaring"

"On line only is a "Unicorn" for dealers...often talked about but rarely seen"

"All off lease cars have low mileage due to COVID. These vehicles are now the common baseline and no longer command higher prices"

"There is a Major difference between Wholesale Sellers pricing and what buyers are willing to pay. Right now, the Wholesale Auctions are in a Stand off"

"BEST WAY TO PROCURE INVENTORY IS TO TRADE FOR IT"

"Inventory on the ground is a huge factor"

"Shortages on new car inventory will continue to drive used car prices up for the next 7-8 months"

"Carvana has created a conversation with regards to reconditioning. Consumers that continue to purchase through Carvana are basically telling dealers they don't care about used cars being serviced when they take delivery. Many of the consumers are looking at how shiny and cheap the car is"

"More outright purchases from consumers"

"Acquisition cost put vehicles on the retail line above book value"

"Lack of willing to work sales agents with all this free government money for doing nothing"

"Carvana single handed is pushing open auction prices out of reach. Closed auction or captive will be the best way to secure the Dealership model"

Source: J.P. Morgan

Table 2: (Continued...) Selected Free Response comments on used vehicle demand trends, debate on online only/omni-channel, shifts in retail vs auction sourcing, and other challenges/concerns including due to COVID-19 restrictions and recent adverse weather in February?

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"Fact is on most Used vehicles right now, we can sell them for more at auction than we can to customers who look at book figures and their budgets. Strangest time I've ever seen, but wholesale is strong currently"

"USED CAR LEASING WOULD HELP SIGNIFICANTLY"

"I believe availability will loosen up once new cars are on the ground. Profits might drop slightly but volumes will increase"

"Demand for quality pre-owned remains high. As a dealer, the best place to procure UC is as a trade"

Source: J.P. Morgan

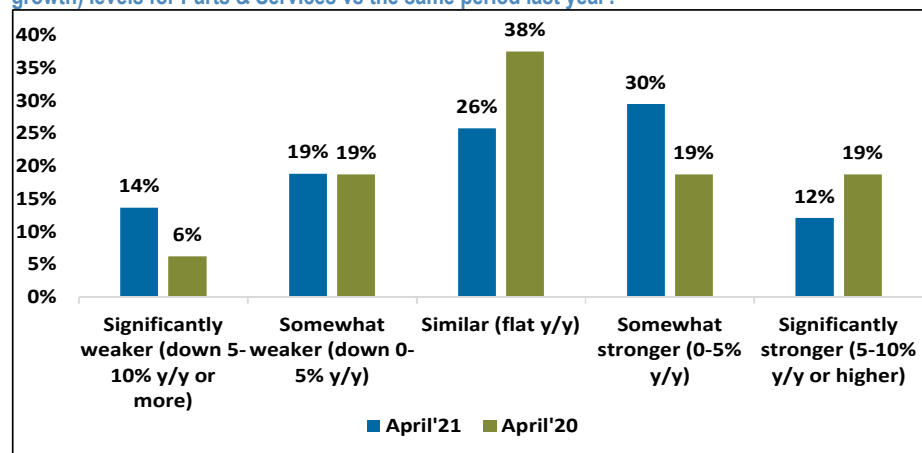
Parts & Services Demand Trends and Challenges

This section walks through dealer expectations for Parts & Services sales in 1Q21 and also their views on segment drivers and challenges going forward.

Parts & Services recovery underway

~32% of respondents saw down y/y trends in Parts & Services sales in 1Q21 with ~26% seeing flat sales and ~42% seeing sales up y/y. Note that y/y comps are relatively easier in March overall given COVID-19 induced weakness in March 2020 though partially offset by weather related headwinds in February 2021.

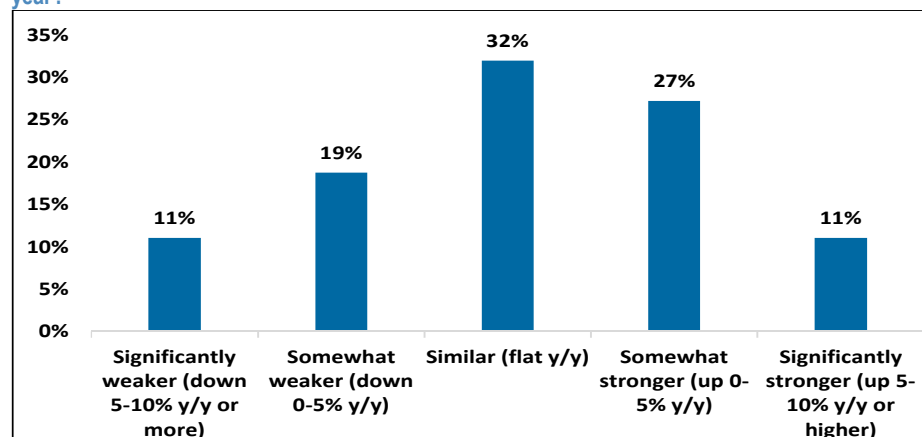
Figure 11: How would you describe your YTD (year-to-date, January through March) activity (y/y growth) levels for Parts & Services vs the same period last year?



Source: J.P. Morgan

Specific to Customer Pay (post-warranty, makes up ~60% of dealer P&S profits) activity, we see that ~38% of respondents saw y/y growth tracking stronger in 1Q21, followed by ~32% that witnessed flat growth ~30% seeing weaker y/y sales growth.

Figure 12: How would you describe your YTD (year-to-date, January through March) activity (y/y growth) levels specific to post-warranty (or Customer Pay) related activity vs the same period last year?

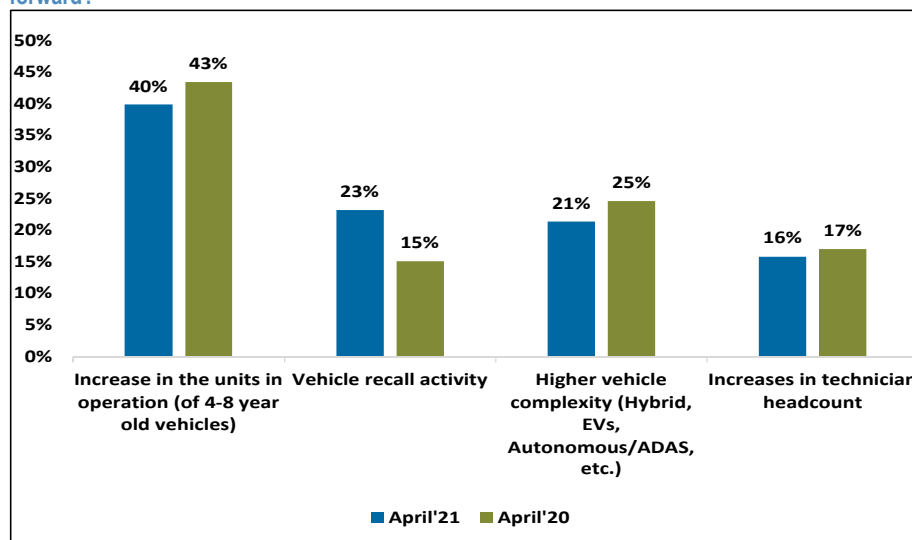


Source: J.P. Morgan

Increasing UIO sweet-spot and vehicle recall activity the key drivers for Parts & Services profitability going forward

~40% of respondents (vs ~43% in 2020) noted that they see the increase in UIO (Units in Operation) of 4-8 year old vehicles in the car parc as the key driver of growth going forward. ~23% see vehicle recall activity as the key driver of growth vs ~15% in 2020, while ~21% (~25% in 2020) and ~16% (~17% in 2020) of respondents cited higher vehicle complexity, including shift to Hybrid/EVs, ADAS technologies, and increases in technician headcount as the key drivers, respectively.

Figure 13: What do you view as the primary drivers of Parts & Services revenue and profits going forward?

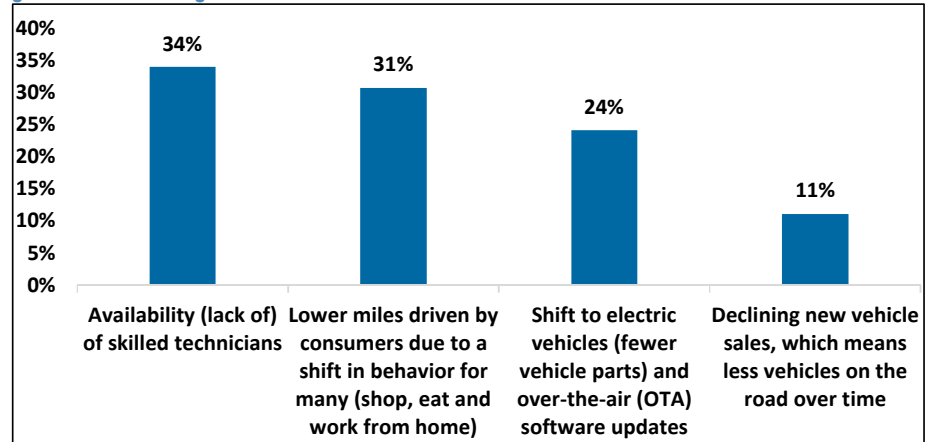


Source: J.P. Morgan

Lack of skilled technicians and structurally lower miles driven the key challenges to Parts & Services profitability longer-term

~34% of respondents see the availability/lack of technicians as the key constraint to Parts & Services growth in the longer term, followed by concerns around structurally lower miles driven (~31%) due to increased comfort with work-from-home and online shopping. ~24% noted shift to EVs, which have fewer vehicle parts and OTA (over-the-air) updates capabilities, as the key challenge and ~11% cited declining new vehicle sales, which would imply fewer vehicles on the road over time.

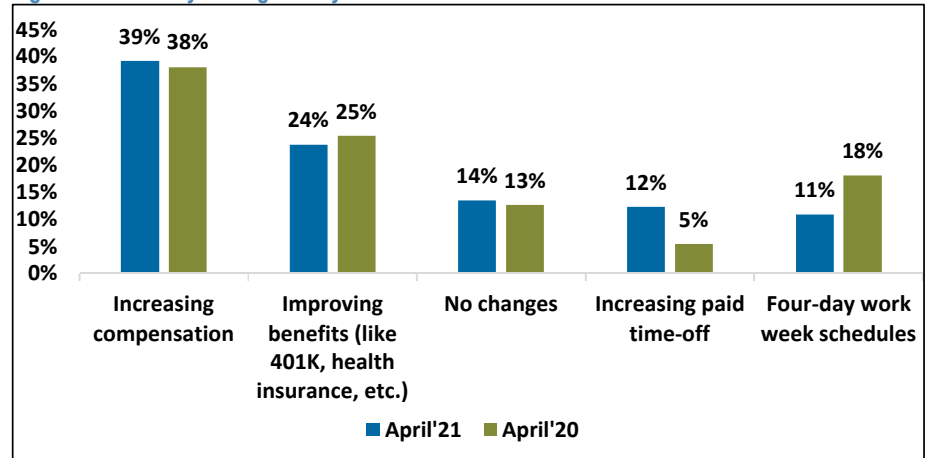
Figure 14: What are the biggest constraints or challenges you see to Parts & Services profit growth over the long term?



Source: J.P. Morgan

On the topic of technicians and initiatives/strategies deployed by dealers to attract skilled labor, ~39% (vs ~38% in 2020) cited increasing compensation as the key lever, followed by improving benefits like 401K, health insurance, etc (~24% vs ~25% in 2020), increasing paid time-off (~12% vs ~5% in 2020) and move to 4-day work week schedules (~11% vs ~18% in 2020).

Figure 15: What key strategies do you use to attract skilled labor/technicians?



Source: J.P. Morgan

Table 3: Selected Free Response comments on Parts & Services demand trends and challenges/concerns including due to COVID-19?

These survey comments have been reproduced in their original form and have not been edited. Survey comments should not be attributed to J.P. Morgan and are not representative of its views.

"fewer miles, working from home, fewer vehicles per household"

"Parts shortages...a real PITA!!"

"Mainly a lack of new inventory and multiple parts issues"

"Online parts sales and margin erosion by Amazon"

"Similar to vehicle production, parts availability and the supply chain have an effect on our parts and service business"

"lack of techs"

"manufactures extended oil requirements are hurt car owners they believe that oil level should last 8000 miles, they don't"

"customers drive less because they stay home"

"YTD numbers have been negatively impacted by multiple snow storms in our area. Specifically in February. We were up YoY in January and trending that way in March however February was brutal"

"improving convenience for the customer"

"As with many dealers; we have worked hard to retain the Top shop techs we have. We have used gift cards, cash and future travel as incentives"

"Commitment to the fixed operations aspect of the business is paramount. This isn't ancillary to the industry, it is a cornerstone"

Source: J.P. Morgan

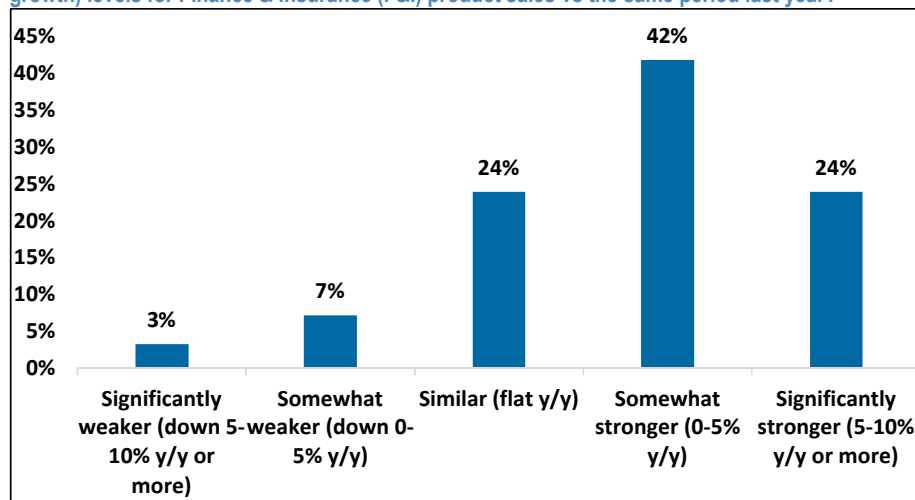
F&I (Finance & Insurance) Demand Trends and Challenges

This section walks through dealer expectations for F&I product sales in 1Q21 and also their views on segment drivers and challenges going forward.

F&I performance robust in 1Q21

~10% of respondents saw down y/y trends in F&I sales in 1Q21 with ~24% seeing flat sales and majority of dealers (~66%) seeing y/y uptick in F&I sales. We believe this is attributed to increasing penetration rate given current lending environment supportive of auto sales amidst low interest rates and ample credit availability, coupled with increasing penetration and favorable macro backdrop given reducing unemployment rates and solid consumer health. Furthermore, public dealers Group 1 Automotive and AutoNation, highlighted F&I resiliency into 1Q21, during our recent meetings with management (click here for our notes on [AN](#) and [GPI](#)).

Figure 16: How would you describe your YTD (year-to-date, January through March) activity (y/y growth) levels for Finance & Insurance (F&I) product sales vs the same period last year?

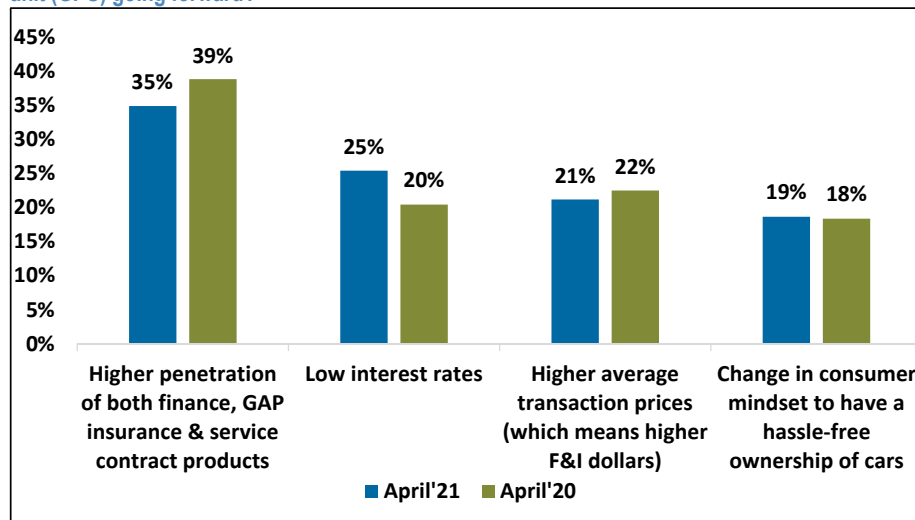


Source: J.P. Morgan

Higher penetration of F&I products, lower rates and increasing vehicle ATPs the key drivers for F&I GPU going forward

~35% of respondents (vs ~39% in 2020) noted that they see higher penetration of F&I products as the key driver of F&I GPU going forward, followed by low interest rates (~25% vs ~20% in 2020). ~21% cited higher vehicle ATPs, which mean higher F&I dollars per vehicle. Lastly, ~19% see changing consumer mindset to have a hassle-free ownership of the car as a factor.

Figure 17: What do you view as the primary drivers of Finance & Insurance (F&I) gross profit per unit (GPU) going forward?

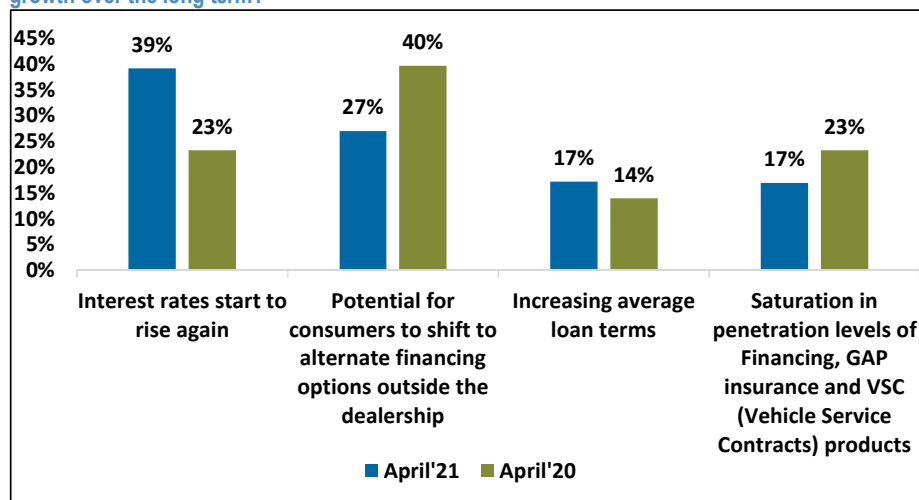


Source: J.P. Morgan

Interest rates starting to rise again the key challenge for F&I GPU longer-term

~39% of respondents see potential for rising interest rates again as the key challenge to F&I profit growth longer-term, which was cited by ~23% dealers in the previous year. ~27% see potential for consumers to shift to alternate financing options outside the dealership as key challenge, which was the major concern in 2020 (cited by ~40% dealers). ~17% (vs ~14% in 2020) cited increasing average loan terms as key constraints cited saturation in penetration levels of F&I products and another ~17% (vs ~23% in 2020) cited saturation in penetration levels of F&I products.

Figure 18: What are the biggest constraints or challenges you see to Finance & Insurance (F&I) growth over the long term?



Source: J.P. Morgan

Table 4: Selected Free Response comments on F&I demand trends and challenges/concerns including due to COVID-19?

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"increased online sales limit interaction with customers and make proper presentations more difficult"

"Outside companies selling warranties...we all get those annoying calls...but some peeps are biting and purchasing those products"

"With digital advancements and margin compression more dealers will shift to a single point of contact for the customers through the transaction, rather than a salesperson handoff to the F&I manager. This will reduce overhead, but likely reduce F&I PVR as well"

"Lenders limiting the products that they will accept on a contract will hurt us in the long run"

"We are seeing the position of the office manager to become obsolete and we will move to a one-deal-one-person system"

"not out of the woods, yet"

"covid 19 customers do not want to come into the dealership at all, it takes longer to sell and deliver cars now so much legal protection the dealers have to have"

"We do not have a "typical" finance and insurance process. The deal is closed via an e desk pencil with any products selected. Our financial service professionals protect the CSI as well as take another pass via a menu for additional products not agreed to already"

"After several years of growth, FI will level off as a key driver for profitability"

Source: J.P. Morgan

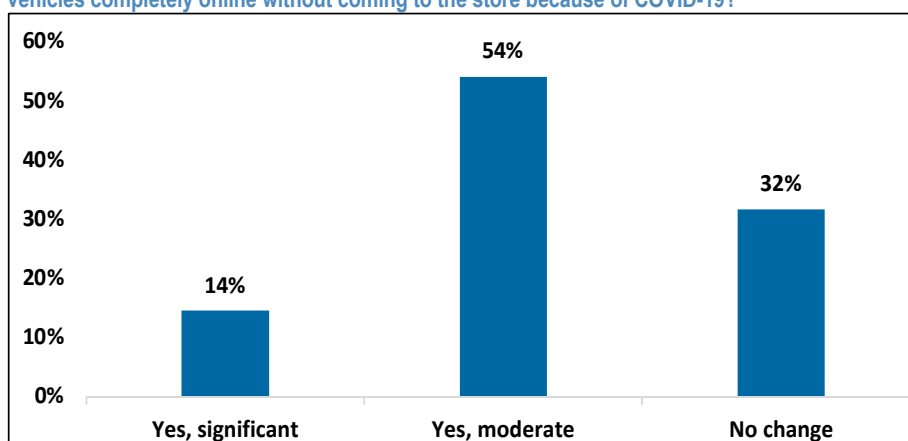
Digital/Online Sales and Electrification Responses

This section walks through dealer expectations related to digital vehicle sales and also their views on electrification and potential challenges going forward.

Online here to stay – likely to grow meaningfully over time

~68% of respondents noted that they are seeing a shift in consumer willingness to purchase vehicles completely online (without visiting the store) amidst the pandemic while the remaining believed that consumer willingness towards online vehicle purchases remains unaltered.

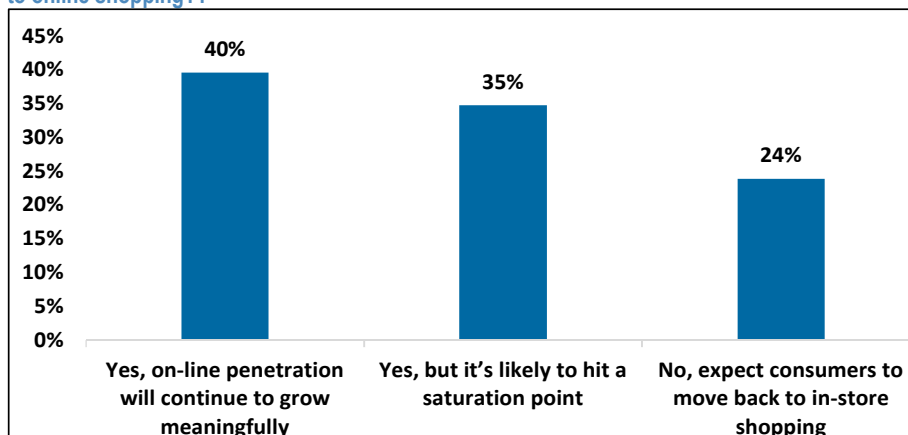
Figure 19: Have you started to see a meaningful shift in consumer willingness to purchase vehicles completely online without coming to the store because of COVID-19?



Source: J.P. Morgan

Amongst dealers who saw a meaningful shift in consumer willingness towards 100% online purchases, ~75% dealers anticipate shift to online vehicle purchases as permanent in nature with ~40% see online penetration continuing to grow meaningfully, and ~35% expecting penetration to grow, though likely to reach a point of saturation, while remaining dealers believe consumers will likely return to in-store shopping vs. online sale.

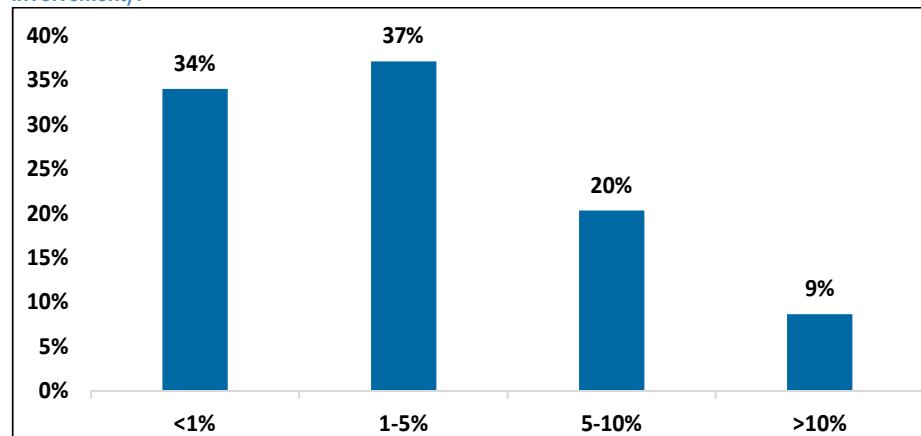
Figure 20: If yes, do you see this as a permanent shift in consumer behavior in terms of moving to online shopping??



Source: J.P. Morgan

~34% of the dealers surveyed sell <1% of their vehicles completely online (minimal sales force involvement) currently, followed by ~57% dealers selling 1-10% vehicles completely online, and ~9% selling >10% of their vehicles completely online.

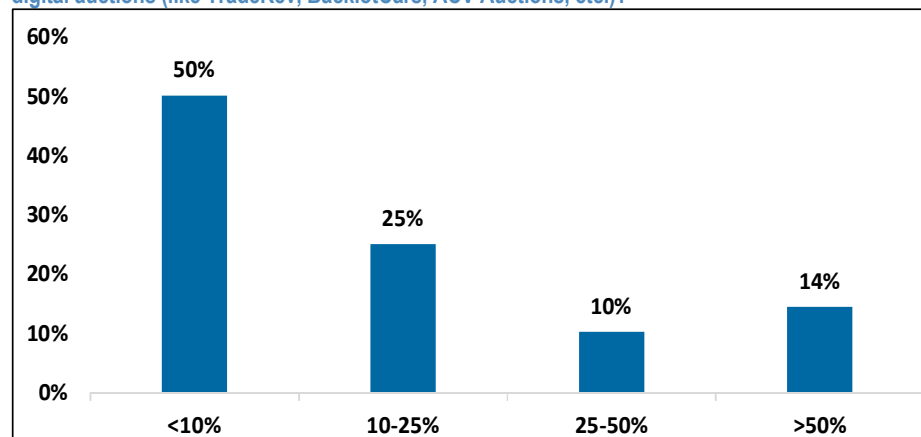
Figure 21: What % of vehicles you sell today are completely online (minimal sales force involvement)?



Source: J.P. Morgan

~50% respondents noted that they are using new upcoming digital auctions (such as TradeRev, BacklotCars, ACV Auctions, etc) for <10% of their overall auction volumes (purchases and sales), ~25% and ~10% cited digital auctions accounting for 10-25% and 25-50% of overall auction volumes, respectively, and ~14% dealers transact >50% of volumes through digital platforms.

Figure 22: For what percentage of your auction purchases/sales are you using new upcoming digital auctions (like TradeRev, BacklotCars, ACV Auctions, etc.)?

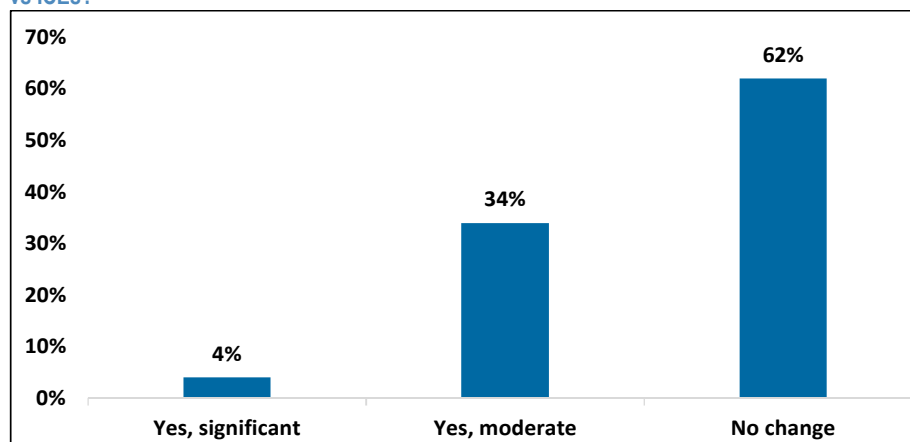


Source: J.P. Morgan

Consumers slow to embrace EVs – charging infrastructure/range anxiety, appropriate pricing, consumer awareness biggest bottlenecks for large-scale EV uptake

~4% of respondents noted that they are seeing a meaningful and “significant” shift in consumer preference for EVs/Hybrids vs ICEs, ~34% see a moderate shift, while the remaining respondents believe there is no change in consumer preference towards these vehicles.

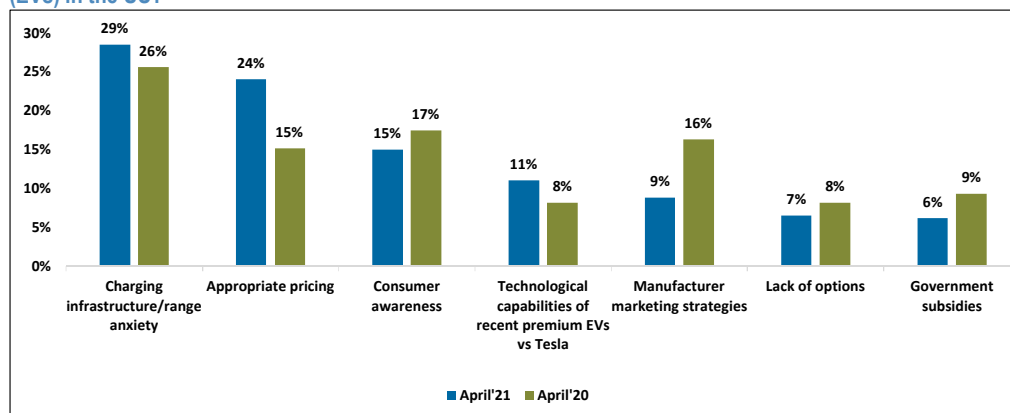
Figure 23: Have you started to see any meaningful shift in consumer preference for EVs/Hybrids vs ICEs?



Source: J.P. Morgan

When asked what needs to happen for a pick-up in uptake of EVs in the US, ~29% of respondents believe that the lack of charging infrastructure and range anxiety is the key reason, similar to 2020 (cited by ~26% dealers). ~24% (vs ~15% in 2020) of the dealers surveyed believe that lackluster EV uptake is attributable to appropriate pricing, ~15% (vs ~17% in 2020) believe that consumer awareness is a key driver, ~11% (vs ~8% in 2020) believe it is due to below par technology of new entrants, ~9% (vs ~16% in 2020) dealers blame manufacturer marketing and advertising strategies, while ~7% each see lack of options in the market and government subsidies as limiting factors, respectively.

Figure 24: What in your view are the key reasons for the lackluster uptake of Electric Vehicles (EVs) in the US?



Source: J.P. Morgan

Table 5: Selected Free Response comments on key challenges or opportunities related to digital sales and electric vehicles longer term?

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"Power grid is the #1 challenge and I don't see how they can do it unless cars are charging as they are driving down the road"

"EV vehicles are the biggest lie in the auto industry. We could all start by telling the truth that in their current form, and as dirty as it is to produce Lithium Batteries, that the average EV vehicle, cradle to grave is 10% less green than an ICE vehicle. Even if we got it to 5-10% cleaner, is it really worth the seismic shift for a few percent that could easily be offset with better catalytics and perhaps downsizing ICE engines just a bit? EV's are NOT greener. Do your in-depth research. And don't compare a Giant SUV to a Nissan Leaf that seems to be the gold standard of people who are trying their damndest to perpetuate this lie. Compare like kind vehicles, I.E., a Corolla to a Leaf, A Yukon to a E-Tron, You are polluting the planet with EV's to a greater extent than ICE vehicles. Put your smartest analyst's on this. Cradle to grave, plus recycling of the toxic batteries."

"Electric will continue to increase in all sectors. Digital will also...but peeps still need to get the feel of the wheel before they make the deal!!"

"I think our Gov'ts. are kidding themselves when they say they want to be 100% EV in 10 years. There is an unlimited list of reasons why it won't happen"

"I believe there will be a trend towards a hybrid business model between automation and human experience sales and service"

"Customers still enjoy entering a showroom"

"CUSTOMER NEED TO SEE LOWER GAS PRICES"

"this is Houston, energy capital of the US, we're unlikely to see a huge push to EVs anytime soon in this area"

"The market will move in this direction in due course. Attempting to push it is ineffective & wrong headed."

"Charging infrastructure/range anxiety is the challenge at this point for our customers. Time to charge is a additional range anxiety pressure point"

"cold weather operating issues"

"I think that the taxpayer is getting fleeced for political purposes on EV's. Hydrogen is a much better way to go and doesn't require lengthy charging stops. It isn't range anxiety that reduces interest, it's a desire to not have to stop for a half hour to not even get a "full tank""

"EVs are not practical in our area. No charging infrastructure"

Source: J.P. Morgan

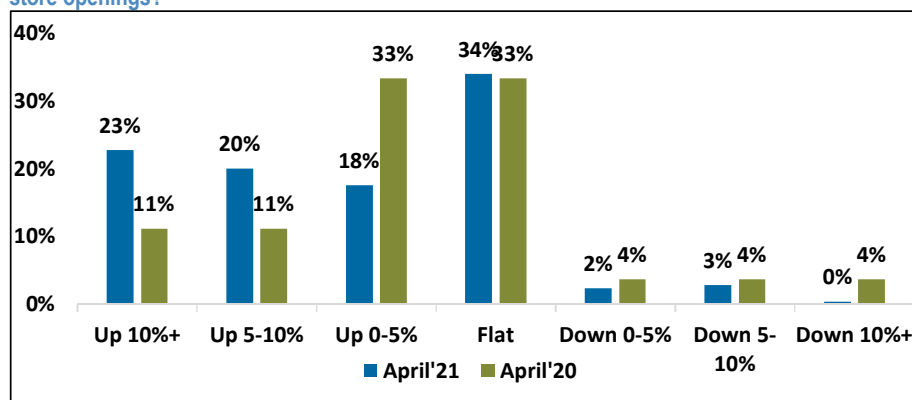
Investments, Consolidation and Long-term Opportunities

This section walks through the key investment focus areas for dealerships in the near to medium term as well as what they view as long-term challenges and opportunities for their overall business.

Capex is likely to be up for majority of the dealers in 2021

~60% of the respondents expect capital expenditures (including maintenance, refurbishment, renovation and excluding new store openings) to be up y/y in 2021, while ~34% expect flat y/y spending and just ~6% dealers expect y/y declines in capex spend.

Figure 25: What are your expectations for overall store capital expenditures (y/y spending change), INCLUDING maintenance and refurbishment/renovation in 2021 but EXCLUDING new store openings?

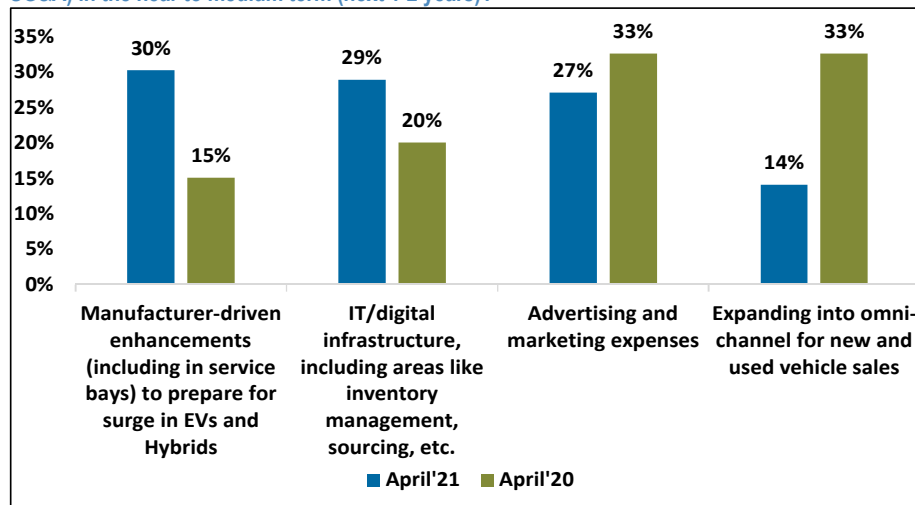


Source: J.P. Morgan

Manufacturer-driven enhancements amidst EV/Hybrid acceleration, digital infrastructure development and advertising expense likely to be the key focus areas of investment in the near to medium term

Amongst the key focus areas for investment (including in SG&A), ~30% (vs ~15% in 2020) respondents cited manufacturer-driven enhancements to prepare for the surge in EVs and Hybrids in the near to medium term, as the primary area of investment, followed by IT/Digital infrastructure enhancements (~29% vs ~20% in 2020). ~27% cited advertising expense which was key focus for dealers in 2020 (~33% of respondents), and ~14% expect to make investments toward on expanding omni-channel initiatives for vehicle sales vs ~33% in 2020.

Figure 26: What are your primary focus areas for investment (both capital expenditures and SG&A) in the near to medium term (next 1-2 years)?

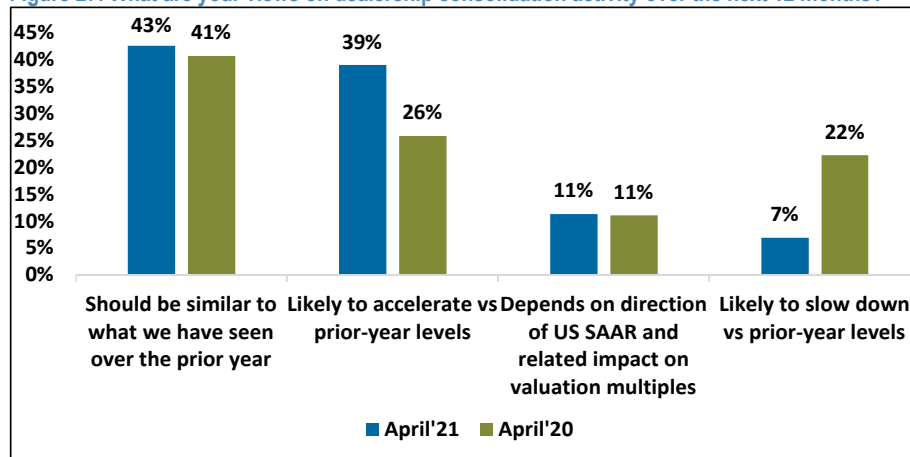


Source: J.P. Morgan

Dealership consolidation activity expectations

Into 2021, ~43% dealers expect consolidation activity to remain similar to 2020, with ~39% dealers believe consolidation trends are likely to accelerate y/y. ~7% expect a slowdown, while the remaining believe expect activity to be dependent on the direction of SAAR and the related impact on valuation multiples.

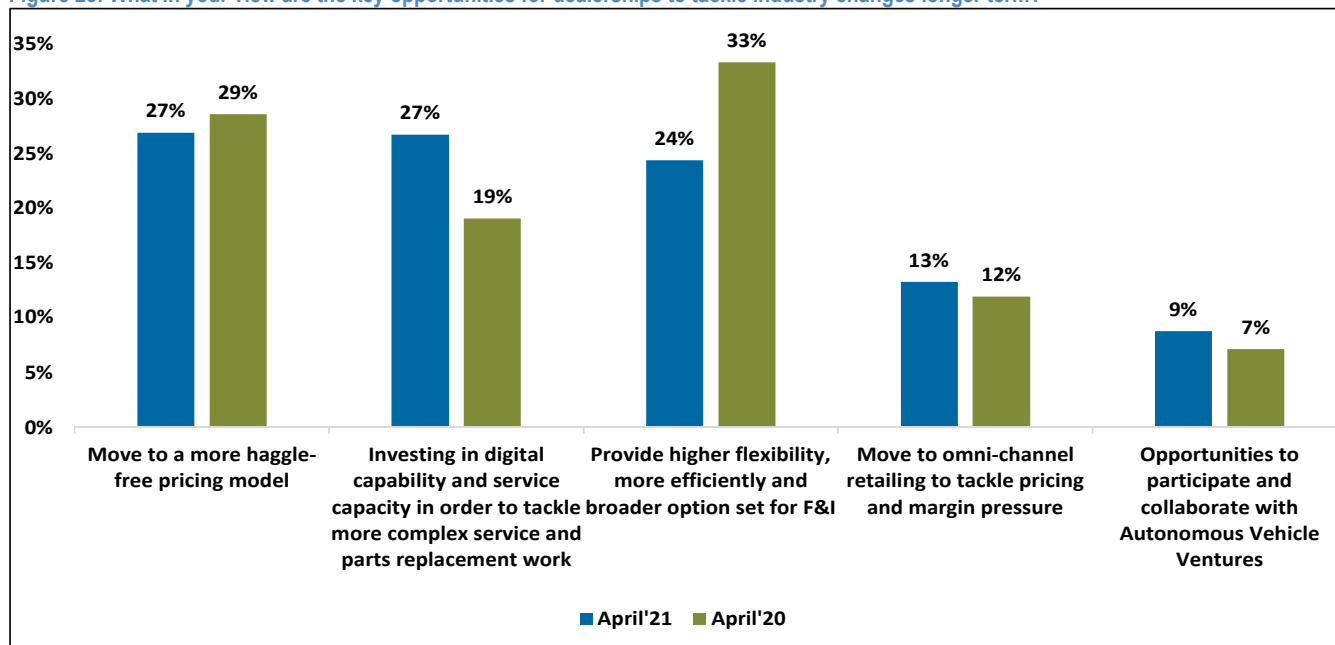
Figure 27: What are your views on dealership consolidation activity over the next 12 months?



Source: J.P. Morgan

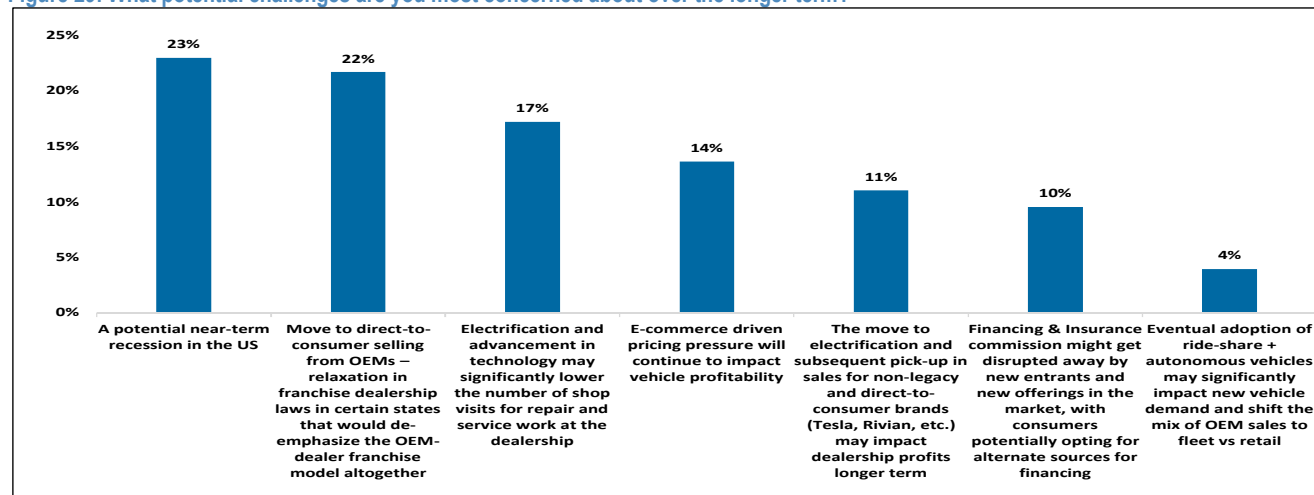
Long-term opportunities for the industry – haggle-free pricing, digital capabilities, higher flexibility in overall purchasing process

~27% (vs ~29% in 2020) of respondents see move to a more haggle-free pricing model as an opportunity for the industry longer-term, another ~27% (vs ~19% in 2020) cited opportunities in investment in digital capability and service capacity to tackle more complex service and parts replacement work. ~24% (vs ~33% in 2020) see ability to provide higher flexibility/efficiency in the vehicle purchase process and broader options for F&I as an opportunity, ~13% (vs ~12% in 2020) cited move to omni-channel retailing and ~9% (vs ~7% in 2020) cited opportunities to participate and collaborate with AV (Autonomous Vehicle) ventures.



Concerns related to a potential near-term recession in the US remain a key potential challenge in the longer term, cited by ~23% dealers, followed by ~22% seeing OEM move to direct-to-consumer selling as the key challenge to navigate. ~17% believe electrification and advancement in technology may significantly lower the number of shop visits for repair and service work at the dealership, ~14% see e-commerce driven pricing pressure, ~11% expect electrification and subsequent pickup in sales for non-legacy and direct-to-consumer brands (Tesla, Rivian, etc.) potentially impacting dealership profits longer term, ~10% see potential disruption of F&I commission by new entrants and new offerings in the market, with consumers potentially opting for alternate sources for financing, and ~5% dealers see eventual adoption of ride-share + autonomous vehicles as a threat that may significantly impact new vehicle demand and shift the mix of OEM sales to fleet vs retail.

Figure 29: What potential challenges are you most concerned about over the longer term?



Source: J.P. Morgan

Table 6: Selected Free Response comments on long-term challenges and opportunities

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"The manufacturers getting their beaks wet in retailing is a concern."

"At some point, the pricing of New Vehicles will limit Sales. Manufacturers keep adding Bells & Whistles, but eventually, some of the Public simply won't be able to afford the features."

"The outlook for remaining relevant in the purchasing and servicing of vehicles while maintaining a reasonable profit margin is looking more and more ominous, particularly for smaller dealer groups."

"The 'stimmie' is a shot in the arm pulling business forward. We will have to pay for this at some time. Inflation and increased taxes are on the horizon."

"There is a lot of disruption currently happening & more on the horizon. Dealers have always been a nimble bunch & that needs to be accentuated even more now."

"Provide excellent customer service, particularly in the delivery and repair. That's the only thing we can possibly do better than larger corporations."

"Provide courteous, convenient, efficient customer service building value in the dealership and product."

"due to inventory shortages- we will focus on stocking plans"

"Shift from car ownership as our core customers age"

"Like Brand competition buying business through devaluing product by selling at a loss"

"Facilities and Human Resources must get more efficient as government agencies create more regulations"

"increasing gas prices, poor US Leadership forcing Green New Deal"

Source: J.P. Morgan

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